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SENSITIVE

PASS TO EXIMBANK
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TAGS: ECPS EINV JO
SUBJECT: THIRD (OR FOURTH?) MOBILE LICENSE TENDER PROVOKES DEBATE

¶1. (SBU) SUMMARY: Jordan's Telecommunications Regulatory Commission (TRC) has announced a tender for what is being billed as a third mobile telephony license in anticipation of the January 1, 2004 end of the current mobile telephony duopoly under its WTO obligations. The tender has provoked unfavorable commentary from several observers, including the current duopolists and a start-up that plans to exercise its option to expand its current license to include mobile telephony. Despite the flak, the TRC - with full support of the Ministry of Information and Communications Technology (MOICT) - appears determined to press on with a process that it believes will bring a necessary degree of competition to an undercompetitive market. END SUMMARY.

THE EXISTING MARKET PLAYERS

¶2. (SBU) Mobile telephony in Jordan was established by Fastlink, a consortium of several prominent Palestinian-Jordanian businessmen, in 1994. Fastlink (later bought by Kuwaiti mobile duopolist MTC) held a monopoly in mobile telephony until 1999, when a second license was granted to MobileCom, a subsidiary of Jordan,s fixed-line monopolist JTC. The entry of MobileCom into the market has had a substantial effect on mobile prices, reducing them by up to 50 percent in some cases. However, MobileCom has never been able to present a serious challenge to Fastlink. It currently holds a market share of 25 percent of mobile subscribers and 20 percent of mobile telephony revenues to Fastlink,s respective 75 percent and 80 percent shares. This ratio has stayed essentially constant since early 2002, and there has been almost no growth in the total number of subscribers) approximately 1.2 million) since the beginning of 2003. Under Jordan,s WTO entry agreement, the mobile telephony market must be opened to free competition by January 1, 2004.

¶3. (SBU) A related trunking license was granted in April 2003 to paging service operator Mirsal, which transferred the license to the New Generation Telecommunications Co. (NewGen). NewGen plans to build a national network of Push-to-Talk (PTT) operations, using Motorola,s iDEN technology to create a service similar to that offered in the United States by Nextel, and it has applied for Ex-Im Bank support to purchase its Motorola inputs. The PTT services would likely be almost exclusively sold to the high-end corporate and government markets, but NewGen will have the option to provide other services, including broad-based consumer mobile telephony, from the beginning of 2004.

THE MOBILE TENDER

¶4. (SBU) On October 13, the TRC released a public notice outlining proposed terms and conditions for the issuance of another license for mobile telephony services. A public forum held October 23 on the issue invited questions and comments on the structure of the license, before the structure was finalized October 31. The TRC has structured the tender as a two-step process, in which a pre-qualification phase is followed by submissions for tender of pre-qualified applicants and their associated partners. These submissions will be evaluated in a "beauty contest" rather than in a straight bid. The pre-qualification will exclude bidders without substantial previous experience in mobile telephony as well as those already owning a significant stake in a current mobile operator or another eligible bidder. The pre-qualification submissions are tentatively scheduled to be due by mid-December, and the tender submissions by the pre-qualified applicants would be due by mid-February, 2004. A decision would then be reached on the winner by the beginning of March 2004.

¶5. (SBU) The beauty contest conducted among the bids of the pre-qualified applicants will be based on the proposed design and implementation of the network (e.g., the proposed area of coverage and proposed timetable for rollout of services), the

proposed marketing, pricing, and overall business plans, the proposed provisions for customer care (e.g., the proposed methodology for billing and collections), and a catchall category labeled "Additional Measures to Benefit Jordan" which would include such proposals as establishment of local R&D facilities and telecom training programs or the extension of telephony services to under-served segments of the population such as rural residents or the handicapped. The successful bidder will receive space in the 1800 or 1900 MHz bands of the spectrum, currently used in part by the Jordanian military, which will have to evacuate whatever portion is eventually selected by the awardee. To partially compensate the existing operators and to create a more level playing field, additional spectrum will be made available to the incumbents based on need, technology limitations will be removed from existing licenses, and other license modifications will be made if need is demonstrated by incumbents.

THE DUOPOLISTS RESPOND

¶6. (SBU) Fastlink and MobileCom have been quick to respond to the October 13 TRC announcement. Fastlink has repeatedly filed requests for consultations with the TRC and have met with the regulators with no apparent success. They have argued that the market cannot sustain another competitor and that the introduction of such a competitor will guarantee at least one bankruptcy, which could make potential investors much more skittish about future investments in Jordan. MobileCom has aired its concerns both privately with the TRC and in public. Continuing bad blood between the two duopolists, evidenced in a recent suit filed by MobileCom against Fastlink alleging industrial espionage, has prevented the competitors from cooperating very effectively, however. In an interview with the press, the chairman of MobileCom,s parent JTC commented that the third mobile license makes no economic sense, but expanded on this point to imply that the reason for market failure in the current duopoly had been Fastlink,s predatory pricing and other anti-competitive activities.

¶7. (SBU) The constant carping has grown annoying to TRC Chairman Muna Nijem, who began the October 23 open forum by announcing that the extension of a third mobile license was decided and not subject to debate; therefore any input and questions would have to address the specific terms and conditions of the license rather than the advisability of its issuance. She and the TRC are receiving strong support in the decision to tender another license from Minister of Informational and Communications Technology Dr. Fawwaz Al-Zou,bi, who has supervisory authority over the TRC. At the October 23 forum, Zou,bi praised the virtues of free competition and stated that the decision to grant another license was irreversible and not something that the GOJ was being forced into by the provisions of its WTO accession. Jordan had made a conscious attempt to add this provision to the entry agreement, with the aim of creating the kind of market-opening expansion that the TRC,s offer of the new license means to achieve. Zou,bi reiterated this commitment to the Ambassador in a November 2 meeting.

IS THE MARKET UNDERCOMPETITIVE?

¶8. (SBU) Despite the duopolists, apparent surprise at the launching of the third tender, the TRC had telegraphed their move for quite a while. A study commissioned by the TRC and carried out by USAID-funded AMIR program consultants reached a conclusion, announced by Nijem in a speech in early September, that the existing duopoly does not sufficiently serve the Jordanian market, and that the addition of a third operator would likely significantly reduce prices and increase market penetration for mobile telephones. Jordan,s rate of mobile penetration in 2002 compares unfavorably with penetration rates for the Gulf states, some of which are served by monopolies, and the duopoly in Lebanon. A comparative study of small European countries that had introduced a third operator showed that consumers had realized substantial benefits from the increased competition.

¶9. (SBU) Fastlink predictably disagrees with the TRC,s diagnosis of the market dynamics. Saad Abu Odeh, chief strategist for Fastlink, says that comparison of mobile penetration between Jordan and states in the Gulf and Europe overlooks dramatic differences in culture, demography, and wealth. Unlike in Europe, 38 percent of Jordan,s population is under the age of 15 and therefore highly unlikely to be able to pay for mobile phones or to receive them from parents. The 27 percent of Jordan,s population below the poverty line (part of which would overlap with the population under 15) could also be counted out of the relevant population of potential mobile telephone users. And lower incomes of even those people above the poverty line creates obstacles to mobile use not faced in Europe. A regression

run by Fastlink plotting telecom penetration against per capita GDP for countries in the region shows Jordan to be above the trend line; i.e., relatively over-penetrated. A comparison of mobile telephony pricing by the Jordanian duopolists with those charged by other operators in the region showed the prices to be at the middle of the range, outperforming duopolists in Morocco and Lebanon, for instance, but falling short of the competitive rates charged by monopolists in Bahrain (which will soon become a duopoly) and the UAE.

NEWGEN: NOT JUST TRUNKING

¶10. (SBU) Besides, says Abu Odeh, there already is a third mobile licensee: NewGen. When NewGen completes its network it will have full capability to offer consumer mobile telephony services at relatively minimal additional expense; given the small size of the high-end trunking market, it will quickly look to mobile telephony as a source of additional revenue. Nashat Masri, son of a former Jordanian prime minister and the Jordanian partner in the primarily Saudi-funded NewGen consortium, confirms that the expansion of services from a PTT base to full mobile telephony services is already part of NewGen,s business plan, though he claims that this "Phase 2" was not originally envisioned by the consortium.

¶11. (SBU) Development of competing PTT services on GSM will allow Fastlink to deploy PTT by as early as March, possibly before NewGen is able to enter the market. While NewGen,s iDEN technology will allow it to provide higher-quality service than that provided by Fastlink, Fastlink will still enjoy incumbent advantages that will make it difficult to displace, especially as it will be offering services similar to those that will be offered by NewGen. Also, says Masri, the Jordanian military, which had originally seemed to be a very large potential client for the PTT services that NewGen would offer, has obtained approval to erect its own proprietary trunking network. Both of these developments will cut into the revenues that NewGen had counted on in its original business plan. Masri expects the company to be able to maintain profitability by exploiting its high-end corporate niche. However, "the sustained double-digit profits that foreign investors expect" are unreachable without moving to expand the customer base by including regular mobile telephony services quickly.

¶12. (SBU) Minister Zou,bi was questioned about this possibility by the Ambassador. Zou'bi said NewGen,s plan makes little long-term business sense, since iDEN technology will be unable to make the jump to third-generation mobile telephony, expected to be present in Jordan in 10-12 years. He said that he had tried to get that message to NewGen after their initial application for a license. Masri says that the prospect of the eventual extinction of iDEN technology makes it even more critical that NewGen,s network, once built, be exploited to its fullest extent) by expanding services to include mobile telephony.

WHO WOULD LOSE?

¶13. (SBU) Expecting that a four-player mobile market will not survive for long, observers are speculating about which player would be the first to drop. MobileCom is seen to be in as much danger as any new licensee. Unable to make money even in a restricted market, MobileCom has an under-utilized network (Fastlink estimates 40 percent utilization) and a relatively price-sensitive customer base. Unlike NewGen, it will have no high-end niche to rely on to support it through the inevitable price wars caused by the new entries; in fact, MobileCom is expected to retain few, if any, of its corporate clients in the face of PTT competition from both NewGen and Fastlink. While MobileCom has the backing of JTC (and through JTC, France Telecom), JTC is unlikely to continue to subsidize a money-losing subsidiary indefinitely, especially given the scheduled end of JTC's own fixed-line monopoly on January 1, 2005.

¶14. (SBU) MobileCom is putting a good face on things. Its statements of regret at the TRC's decision are pro forma when compared with those of Fastlink. Ahmed Salah, MobileCom's Strategic Director, told us that while it would be impossible for another mobile operator to recoup the cost of erecting yet another network, it might be possible for a new entrant to make money by using extra space on an existing operator's network. As Fastlink's network is already almost fully utilized, only one network is currently available to be used in this way: MobileCom's. If such an arrangement were made, it might even lead to a merger.

WHY ISSUE ANOTHER LICENSE?

¶15. (SBU) There is no shortage of conspiracy theories purporting to explain the new license. Masri claims that the TRC has been pressured to issue another license by a government that wants to prove that it is serious about its WTO commitments, even at the cost of opening the possibility of "ruinous competition." Abu Odeh believes that the TRC wishes to bury the mistakes it made with NewGen) the lack of transparency in the granting of a license and the decision to give NewGen exclusive rights to use iDEN technology) by granting a new license, awarded transparently. Other observers cast doubt upon the transparency of the process itself. According to Motorola country manager Motaz Hourani, there are rumors that the limited publicity of the new tender and the short deadline for application are intentional, because the TRC has a favored candidate) perhaps original Fastlink investors such as Ziyad Abu Jaber and Habib Ghawi) who will have a greater chance of winning a bid if interest is low. (Hourani adds that the named parties may be spreading this rumor themselves in order to attract foreign partners.) The subjectivity of a beauty contest has fed this perception, though it seems to make the most sense given Jordan,s current telecom outlook.

¶16. (SBU) In defense, TRC's Nijem cites multiple expressions of interest that she has received from both local and international companies (the approximately 100 guests who attended the public forum on the license appear to bear her out). South African mobile provider MTN is interested in the deal. They are said to see it as a low-cost way to enter the region, from which they could expand to build networks in other countries as their sectors begin to liberalize. Bahrain's Batelco has entered discussions with at least one local group. Jordanians interested in the license calculate that even with the acknowledged limitations, there is a potential market of one million Jordanians (out of five million residents) that is not being served and that could be divided profitably between three operators. None of these potential bidders seem to have factored into their business plans the prospect of a NewGen entry into the broad mobile telephony market. Abu Odeh dismisses the optimistic predictions if these bidders: "There is a lot of 'stupid money' out there, and it should be TRC,s role to protect the sector from it and the investors from themselves."

COMMENT

¶17. (SBU) The decision to license a third/fourth mobile provider is made. It has the commitment of the TRC and MOICT, has generated interest from domestic and foreign potential investors, and has been approved in its finalized form. The issuance of the tender is a strong sign of Jordan,s commitment to its WTO obligations and the free market. The pre-qualification requirements would seem to preclude bids by consortia without a good understanding of the economics of mobile telephony. Still, it is difficult to see how four mobile providers will survive in a market that has seen one of its duopolists unable to profit in the three years it has had a network. A failure in this sector will not be a disaster, however. The outright collapse of an operator is less likely than the sale or merger of a less successful mobile service to a more potent competitor. The outcome should be a reduction Fastlink,s dominance and creation of a more level playing field that will stimulate competition, benefiting the Jordanian consumer and the economy as a whole. Meanwhile, the process is whetting appetites for the end of Jordan,s fixed-line monopoly on January 1, 2005 (septel).

¶18. (SBU) Conspicuous by its absence in this controversy is any strong indication of GOJ ofiicials' interference or favoritism in the decision to bid. There has been no strong governmental pressure to protect the interests of the incumbents, including NewGen; neither is there any convincing evidence that any particular potential bidder has an "inside track." While this is an encouraging sign of the independence of the TRC and of maturity on the part of other actors in the GOJ, it is not necessarily a harbinger of the end to political involvement in commercial matters in Jordan. Both Fastlink and MobileCom are now primarily foreign-owned without a strong and involved local partner to call in political pressure on their behalf. Even NewGen - which received a license with very good terms in a backroom deal early this year - is primarily funded by Saudis and locally partnered with the Masri family, a clan that no longer exercises the influence it held under the previous king.
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